

FISCHER III, LLC
FINANCIAL STATEMENTS
For the year ended December 31, 2008
with
Report of Independent Auditors

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 7/22/09



**NOVOGRADAC
& COMPANY LLP**

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To the Members of
Fischer III, LLC:

We have audited the accompanying financial statements of Fischer III, LLC, component unit of the Housing Authority of New Orleans, Louisiana, as of and for the year ended December 31, 2008. These financial statements are the responsibility of Fischer III, LLC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fischer III, LLC, as of December 31, 2008, and the changes in financial position, and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2009, on our consideration of Fischer III, LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Novogradac & Company LLP

April 30, 2009

FISCHER III, LLC
STATEMENT OF NET ASSETS
December 31, 2008

ASSETS

Current Assets

Cash and cash equivalents	\$ 889,345
Accounts receivable	23,559
Prepaid ground lease	39,628
Prepaid expenses	19,333
Total Current Assets	<u>971,865</u>

Restricted Assets

Restricted cash	586,495
Restricted security deposits	7,305
Total Restricted Assets	<u>593,800</u>

Capital Assets

Buildings	17,420,417
Site improvements	2,158,534
Personal property	532,114
	<u>20,111,065</u>
Less:	
Accumulated depreciation	<u>(1,697,405)</u>
Net Capital Assets	<u>18,413,660</u>

Other Noncurrent Assets

Intangible assets, net of accumulated amortization	577,702
Due from related parties	579,711
Total Other Noncurrent Assets	<u>1,157,413</u>

Total Assets	<u><u>\$ 21,136,738</u></u>
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see accompanying notes

FISCHER III, LLC
STATEMENT OF NET ASSETS (CONTINUED)
December 31, 2008

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 6,526
Prepaid rent	7,189
Construction costs payable	332,659
Accrued interest	3,733,438
Accrued expenses	9,664
Total Current Liabilities	<u>4,089,476</u>

Current Liabilities Payable from Restricted Assets

Security deposits payable	7,305
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Long-Term Liabilities

Due to related parties	20,448,665
Development fee payable	<u>1,055,564</u>
Total Long-Term Liabilities	<u>21,504,229</u>

Total Liabilities	25,601,010
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Unrestricted Net Assets	<u>(4,464,272)</u>
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Total Liabilities and Net Assets	<u>\$ 21,136,738</u>
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see accompanying notes

FISCHER III, LLC
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the year ended December 31, 2008

Operating Revenue	
Rental revenue	\$ 610,744
Other income	6,616
Total Operating Revenue	<u>617,360</u>
OPERATING EXPENSES	
General and administrative	73,657
Payroll	98,956
Utilities	88,890
Insurance	202,966
Management fees	54,848
Repairs and maintenance	97,254
Marketing and advertising	492
Professional fees	51,769
Depreciation and amortization	729,487
Ground lease	468
Total Operating Expenses	<u>1,398,787</u>
Operating Loss	(781,427)
Nonoperating Revenues (Expenses)	
Interest income	13,372
Dividend income	5,281
Insurance proceeds	179,570
Interest expense	(1,766,997)
Other company expenses	(5,524)
Net Nonoperating Revenues (Expenses)	<u>(1,574,298)</u>
Change in Net Assets	(2,355,725)
Net Assets - Beginning of Year	<u>(2,108,547)</u>
Net Assets - End of Year	<u>\$ (4,464,272)</u>

see accompanying notes

FISCHER III, LLC
STATEMENT OF CASH FLOWS
For the year ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (2,355,725)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	729,487
Increase in restricted security deposits	(1,784)
Increase in accounts receivable	(6,984)
Decrease in prepaid expenses	47,079
Decrease in accounts payable	(4,108)
Increase in prepaid rent	7,114
Increase in accrued interest	1,766,997
Increase in accrued expenses	5,524
Decrease in security deposits payable	(1,796)
Net cash provided by operating activities	<u>185,804</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Decrease in restricted cash	23,622
Purchases of fixed assets	(27,156)
Net cash used in investing activities	<u>(3,534)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Decrease in due to related parties	(5,143)
Net cash used in financing activities	<u>(5,143)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 177,127

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 712,218

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 889,345

see accompanying notes

FISCHER III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Fischer III, LLC (the "Company"), a Louisiana limited liability company, was formed in December 2003 to construct, develop and operate a 103-unit apartment project, known as Fischer III Apartments (the "Project") in New Orleans, Louisiana. The Project is rented to low-income tenants and is operated in a manner necessary to qualify for federal low-income housing tax credits as provided under Section 42 of the Internal Revenue Code ("Section 42").

The managing member is Lune d'Or Enterprises, LLC (the "Managing Member"). The limited members (the "Non-managing Members") are MMA Fischer III, LLC (the "Investor Member"), and MMA Special Limited Member, Inc. (the "Special Member"). The Company will operate until December 31, 2104, or until its earlier dissolution or termination.

Profits, losses, and tax credits are allocated in accordance with the Amended and Restated Operating Agreement, dated January 1, 2005 (the "Operating Agreement"). Profits and losses from operations and low-income housing tax credits in any one year are allocated 99.99% to the Non-managing Members and 0.01% to the Managing Member.

Pursuant to the Operating Agreement, the Investor Member is required to provide capital contributions to the Company totaling \$6,560,210, subject to adjustments based on the amount of low-income housing tax credits allocated. As of December 31, 2008, the Investor Member had provided cumulative capital contributions in the amount of \$300,000.

Fischer III, LLC is a component unit of the Housing Authority of New Orleans ("HANO") under the requirements of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. Fischer III, LLC is presented as a discretely presented component unit of HANO as there is a financial benefit/burden relationship with HANO.

Basis of presentation and accounting

In accordance with Louisiana State Reporting Law (LAS-R.S.24:514), the financial statements are prepared in accordance with United States generally accepted account principles (GAAP). GASB is the accepted standards setting body for establishing accounting and financial reporting standards.

FISCHER III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Basis of presentation and accounting (continued)

Based on compelling reasons offered by HUD, Fischer III, LLC reports under the governmental proprietary fund type (enterprise fund), which uses the accrual basis of accounting. The enterprise fund emphasizes the flow of economic resources as a measurement focus. In this fund, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Pursuant to the election option made available by GASB Statement No. 20, *Accounting and Financial Reporting for Propriety Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are applied in the preparation of the financial statements.

The enterprise method is used to account for those operations that are financed and operated in a manner similar to private business, or where HANO has decided that the determination of revenues earned, costs incurred, and/or net income necessary for management accountability is appropriate. The intent of the governing body is that the costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through funding from HANO and charges to residents for rent and other fees.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with maturities of three months or less at date of acquisition. Restricted cash is not considered a cash equivalent.

Restricted assets

Certain assets may be classified as restricted assets on the statement of net assets because their use is restricted for modernization programs, security deposits held in trust, family self-sufficiency program escrows, and homebuyers' reserves, among others.

Concentration of credit risk

The Company places its temporary cash investments with high credit quality financial institutions. At times, the account balances may exceed the institutions' federally insured limits. The Company has not experienced any losses in such accounts.

Receivables

Management considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they are charged to operations in the period in which that determination is made.

FISCHER III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Receivables (continued)

Accounts receivable as of December 31, 2008 consisted of the following:

Accounts receivable – tenants	<u>\$ 23,559</u>
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Revenue recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other income results from fees earned for late payments, cleaning, damages, and laundry facilities, and is recorded when earned.

Income taxes

Income taxes on Company income are levied on the members in their individual capacities. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. Pursuant to FSP-FIN-48-3, the effective date has been deferred for nonpublic organizations and will become effective for fiscal years beginning after December 15, 2008. The Company has elected to defer the application of FIN 48. Management believes that the implementation of FIN 48 will not have a material effect on the financial statements.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

FISCHER III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Economic concentrations

The Company operates one property located in New Orleans, Louisiana. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

Capital assets

All purchased capital assets are valued at cost. All normal expenditures of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold.

Pursuant to the enterprise GAAP method, the cost of buildings and equipment is depreciated over the estimated useful lives of the related assets on a composite basis using the straight-line method. Depreciation commences on modernization and development additions in the year following completion. Depreciation expense for the year ended December 31, 2008 was \$692,167. The useful lives of buildings and equipment for purposes of computing depreciation are as follows:

<u>Asset</u>	<u>Life</u>	<u>Method</u>
Buildings	40 years	Straight-Line
Site Improvements	20 years	Declining-Balance
Personal Property	10 years	Declining-Balance

Maintenance and repairs expenditures are charged to operations when incurred. Betterments in excess of \$5,000 are capitalized. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Capital assets consist of the following as of December 31, 2008:

	Balance January 1, 2008	Additions	Transfers And Deletions	Balance December 31, 2008
Buildings	\$ 17,403,622	\$ 16,795	\$ -	\$ 17,420,417
Site improvements	2,158,534	-	-	2,158,534
Personal property	521,753	10,361	-	532,114
Less: accumulated depreciation	(1,005,238)	(692,167)	-	(1,697,405)
Capital assets, net	\$ 19,078,671	\$(665,011)	\$ -	\$ 18,413,660

FISCHER III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Intangible assets

Intangible assets include bond issuance costs of \$730,927, construction loan fees of \$295,696, and tax credit fees of \$11,600. Bond issuance costs are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Construction loan fees are amortized over the life of the construction loan using the straight-line method, which approximates the effective interest method. Tax credit fees are amortized over the tax credit compliance period of fifteen years. Accumulated amortization as of December 31, 2008 was \$460,521. Amortization expense for the year ended December 31, 2008 was \$37,320.

Impairment of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. There was no impairment loss recognized during 2008.

NOTE 2 – RESTRICTED ASSETS

Restricted cash

Pursuant to the construction loan agreement between the Company and HANO, a related party of the Managing Member, a cash collateral account was established which was used to deposit the proceeds of the construction loan. As of December 31, 2008, the balance of the cash collateral account was \$586,495.

Tenant security deposits

Tenant security deposits are placed into an interest-bearing account and are generally held until termination of the leases, at which time some or all deposits may be returned to the lessees. Until termination of the lease, tenant security deposits are owed to the tenants and are recorded as a liability. As of December 31, 2008, the tenant security deposits balance was \$7,305.

Replacement reserve

Pursuant to the Operating Agreement, the Managing Member shall establish a reserve account for capital replacements, funded by monthly deposits of \$2,416, increasing annually by the Consumer Price Index commencing on the completion date. As of December 31, 2008, the replacement reserve balance was \$0.

FISCHER III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 2 – RESTRICTED ASSETS (CONTINUED)

ACC subsidy reserve

Pursuant to the Operating Agreement, the Company shall establish a reserve account equal to \$193,875 as set forth in the Regulatory and Operating Agreement between the Company and HANO. Funds in the ACC Subsidy Reserve may be used to pay operating expenses subject to approval and consent of the Investor Member. As of December 31, 2008, the subsidy reserve balance was \$0.

Operating reserve

Pursuant to the Operating Agreement, the Managing Member was required to establish an operating reserve in a separate reserve account to fund operating expenses, to the extent required, subject to any requisite approvals and to the consent of the Investor Member. As of December 31, 2008, the operating reserve balance was \$0.

NOTE 3 – CONSTRUCTION COSTS PAYABLE

In January 2005, the Company entered into a construction contract for a total value of \$20,913,000. As of December 31, 2008, \$332,659 was payable to the contractor under the construction contract and is included in "Construction costs payable" on the accompanying statement of net assets.

NOTE 4 – OPERATING DEFICIT GUARANTY

Pursuant to the Operating Agreement, if at any time the Company requires funds to discharge operating expenses, the Managing Member shall furnish to the Company the funds required. Amounts so furnished to fund operating expenses incurred prior to the Development Obligation Date shall be deemed Special Capital Contributions and amounts furnished on or after the Development Obligation Date shall constitute Operating Expense Loans, as defined in the Operating Agreement. Any such Operating Expense Loans shall not bear interest and are repayable only as provided for in the Operating Agreement. As of December 31, 2008, there were no guaranty amounts due or payable.

NOTE 5 - DUE FROM RELATED PARTIES

As of December 31, 2008, Fischer I, LLC, a related party of the Managing Member, owed the Company for costs paid on its behalf during the development phase of Fischer I Apartments. As of December 31, 2008, the amount due from Fisher I, LLC was \$579,711 and is included in "Due from related parties" on the accompanying statement of net assets.

FISCHER III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 6 - RELATED PARTY TRANSACTIONS

Due to related parties

During 2006, HANO advanced funds to the Company to cover additional costs incurred due to damage caused by Hurricane Katrina. These payables bear no interest, are collateralized by the Project, and are payable from remaining mortgage proceeds, capital contributions, and available cash flows from the Project. As of December 31, 2008, \$1,868,196 was outstanding and is included in "Due to related parties" on the accompanying statement of net assets. \$ 1,868,196

Development fee payable

Pursuant to the agreement between the Company and Crescent Affordable Housing Corporation ("CAHC"), a related party of the Managing Member, CAHC earned a fee in the amount of \$1,355,564 for services rendered in connection with the construction and development of the Project. Payments of the development fee are to be made from designated proceeds or from development advances, as defined in the Operating Agreement and the Development Services Agreement, respectively. As of December 31, 2008, development fee payable of \$1,055,564 was outstanding and is included in "Development fee payable" on the accompanying statement of net assets. 1,055,564

Property management fees

HANO earned management fees in the amount of \$35 per occupied unit per month for which rent is actually received. During 2008, the Company incurred property management fees to HANO of \$15,450. On May 1, 2008, Latter & Blum Property Management, Inc. ("LBPM"), an unrelated party of the Company, became the new property management company. Pursuant to the new management agreement, LBPM earns management fees in the amount of \$30 per occupied unit per month for which rent is actually received. During 2008, the Company incurred and paid property management fees of \$39,398 to LBPM. As of December 31, 2008, property management fees of \$48,808 remain outstanding to HANO and are included in "Due to related parties" on the accompanying statement of net assets. 48,808

Asset management fee

Pursuant to the Operating Agreement, an asset management fee in the amount of \$5,000 per annum is incurred. To the extent that it is not paid the fee accrues and is payable in the future. As of December 31, 2008, asset management fees of \$9,664 were accrued.

FISCHER III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 6 - RELATED PARTY TRANSACTIONS (CONTINUED)

Company management fees

Pursuant to the Operating Agreement, the Managing Member earns a fee (the "Company Management Fee") in the amount of \$15,450 per annum in consideration for its services in the day to day administration of the business affairs of the Company. The Company Management Fee is payable from available cash flow, subject to the terms of the Operating Agreement. During 2008, Company Management Fees of \$15,450 were incurred. As of December 31, 2008, accrued Company Management Fees in the amount of \$61,800 were outstanding and are included in "Due to related parties" on the accompanying statement of net assets.

61,800

Program income loan

On January 20, 2005, the Company entered into a loan agreement ("HANO Program Income Construction Mortgage Note") with HANO, in the amount of \$344,314. The loan was obtained in connection with the financing of the acquisition, development, and construction of the Project, is collateralized by the Project, and accrues interest annually at 0.5%. All unpaid principal and interest is due on January 1, 2060, and payments are to be made from cash flow, as defined by the Operating Agreement. As of December 31, 2008, the HANO Program Income Construction Mortgage Note outstanding was \$344,314 and is included in "Due to related parties" on the accompanying statement of net assets. As of December 31, 2008, interest of \$6,743 was accrued.

344,314

Supplemental loan

On November 1, 2006, the Company entered into a loan agreement ("Supplemental Loan") with HANO. The loan bears no interest and is collateralized by the Project. All unpaid principal is due on November 1, 2061, and is payable from surplus cash. As of December 31, 2008, the outstanding balance of the Supplemental Loan was \$3,064,919 and is included in "Due to related parties" on the accompanying statement of net assets.

3,064,919

Affordable housing program loan

On November 16, 2005, the Company entered into a Loan ("Affordable Housing Program Loan") with HANO, in the amount of \$350,000, to assist the Company in financing the Project. The loan bears no interest, is collateralized by the Project, and is payable from remaining mortgage proceeds, capital contributions, and available cash flows from the Project. The loan will be maintained for 15 years from the date of Project completion. As of December 31, 2008, the outstanding balance of the Affordable Housing Program Loan was \$350,000, and is included in "Due to related parties" on the accompanying statement of net assets.

350,000

FISCHER III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 6 - RELATED PARTY TRANSACTIONS (CONTINUED)

Construction mortgage note

In December 2003, HANO, with The Industrial Development Board of the City of New Orleans Louisiana, Inc. as a secured party, obtained Capital Fund Program Revenue Bonds ("the Bonds"), for the construction and development of the Project and payment of bond redemption. The amount of bonds allocated to the Project was \$13,634,195. On January 20, 2005, the Company entered into a Construction Mortgage Note ("the Note") with HANO. The Note was funded using bond proceeds received by HANO, is collateralized by the Project, and bears interest annually at 3% through the maturity date, which was February 1, 2007. Pursuant to the Note, any amount outstanding after the maturity date bears interest annually at 12%. As of December 31, 2008, the Company was in default, and the Note was still outstanding in the amount of \$14,710,628, which is included in "Due to related parties" on the accompanying statement of net assets. As of December 31, 2008, interest of \$3,726,695 was accrued.

14,710,628

Total due to HANO

\$ 21,504,229

NOTE 7 - GAIN ON INSURANCE PROCEEDS

During 2008, the Company received insurance proceeds for the damages from Hurricane Katrina. In prior years, the Company recorded the loss incurred as a result of the damages. During 2008, insurance proceeds in the amount of \$179,570 were received.

NOTE 8 - GROUND LEASE

On December 30, 2003, the Company entered into an 89-year Ground Lease (the "Ground Lease") with HANO. Under the Ground Lease, the Company is required to pay annual rent of \$5,000. In consideration of a \$41,979 lump sum payment from the Company on January 20, 2005, the payment obligations have been fully satisfied and discharged. Ground lease expense for 2008 was \$468. As of December 31, 2008, prepaid ground lease was \$39,628.

FISCHER III, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 9 – LOW-INCOME HOUSING TAX CREDITS

The Company expects to generate an aggregate of \$7,209,740 of low-income housing tax credits ("Tax Credits"). Generally, such Tax Credits are expected to become available for use by the members pro-rata over a ten-year period that began in 2007. The Project's Tax Credits were allocated pursuant to a tax-exempt bond allocation and are contingent on its ability to maintain compliance with Section 42 and the tax-exempt bond regulations. Failure to maintain compliance with occupant eligibility, and/or unit gross rent or to correct non-compliance within a specific time period could result in recapture of previously taken Tax Credits plus interest. The Company has also executed a land use restriction agreement which requires the Project to be in compliance with Section 42 for a minimum of 15 years. Any potential noncompliance may require an adjustment to the capital contributed by the Investor Member. Because these Tax Credits are subject to certain compliance requirements, there can be no assurance that the aggregate amount of Tax Credits will be realized and failure to meet all such requirements may result in less Tax Credits than expected.



**NOVOGRADAC
& COMPANY LLP**

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Members of
Fischer III, LLC

We have audited the financial statements of Fischer III, LLC, as of and for the year ended December 31, 2008, and have issued our report thereon dated April 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fischer III, LLC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fischer III, LLC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fischer III, LLC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Company's financial statements that is more than inconsequential will not be prevented or detected by Fischer III, LLC's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Fischer III, LLC's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant

deficiencies that are also considered to be material weaknesses. However, we consider the combination of the deficiencies listed in the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses.

Fischer III, LLC's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Fischer III, LLC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Members, management, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Novogradac & Company LLP

April 30, 2009

FISCHER III, LLC
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2008

Findings - Deficiencies in the Operation of Controls

Deficiency 08-01

Inadequate design of internal control over the preparation of the financial statements being audited.

Management's Response

As with many PHA self developed LIHTC entities, accounting systems in place for this entity generate financial data on a cash flow basis, which allows management to monitor operating activities effectively. At the time of this audit, accounting staffing and systems were not sufficient to enable the entity to produce full GAAP and GASB-compliant financial statements and footnotes on the accrual basis of accounting. Since the time of the audit, staff assignments and accounting systems have been established to enable management to prepare the annual financial statements. The company has entered into a management agreement with Latter and Blum. The contracted management agent along with the Finance Manager at the authority will be responsible for the full GAAP and GASB compliant financial statements for Fischer III, LLC.

Deficiency 08-02

Failure to post adjusting journal entries from the prior year audit.

Management's Response

We have implemented a new procedure that will address this issue going forward. The finance manager will be required to validate that all adjusting journal entries (relating to the year end audit) are preformed and that the prior year is closed on the accounting system in place. Finance manager will keep a copy of the audited adjusting posted entries and close out check list available for the auditors.

Deficiency 08-03

Failure to account for depreciation.

Management's Response

Finance Manager will be responsible to create the annual depreciation journal entries (approved by the CFO and Investor) and validate that the entries have been posted by the appropriate staff member. Depreciation schedule and posted entries will be available to the auditor going forward.

FISCHER III, LLC
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2008

Findings – Compliance

Finding 08-04

Failure to submit audited financial statements to the Louisiana Legislative Auditor by the statutory due date.

Recommendation

Procedures should be implemented to produce and report accurate financial activity on a timely basis.

Management's Response

Due to the financial recovery of the agency during the period after Hurricane Katrina the agency requested that submission deadlines be extended. Going forward with the 2009 audit the submission dates for engagements and audits will be met as required.

FISCHER III, LLC
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
For the Year Ended December 31, 2008

Findings - Deficiencies in the Operation of Controls

Deficiency 07-01

Inadequate design of internal control over the preparation of the financial statements being audited.

Status

Outstanding

Deficiency 07-02

Failure to post adjusting journal entries from the prior year audit.

Status

Outstanding

Deficiency 07-03

Failure to account for depreciation.

Findings – Compliance

Finding 07-04

Failure to submit audited financial statements to the Louisiana Legislative Auditor by the statutory due date.

Status

Outstanding

Fischer III, LLC

Novogradac and Company
11044 Research Blvd, Suite 400
Austin, Texas 78759

To Whom It May Concern:

In response to your *Report on Internal Control over Financial Reporting dated April 30, 2009* concerning the deficiencies in the Design of Controls; Fischer III, LLC has approved the following corrective action plan. It is the intent of this plan to make the appropriate management responsible to implement policies and procedures that will address the concerns mentioned in our 2008 audit.

Corrective Action Plan:

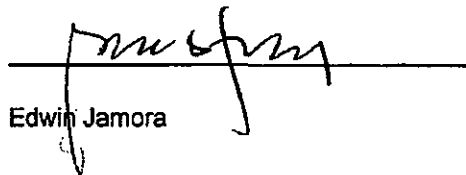
- Inadequate design of internal control over the preparation of the financial statements being audited.
- **Response: As with many PHA self developed LIHTC entities, accounting systems in place for this entity generate financial data on a cash flow basis, which allows management to monitor operating activities effectively. At the time of this audit, accounting staffing and systems were not sufficient to enable the entity to produce full GAAP and GASB-compliant financial statements and footnotes on the accrual basis of accounting. Since the time of the audit, staff assignments and accounting systems have been established to enable management to prepare the annual financial statements. The company has entered into a management agreement with Latter and Blum. The contracted management agent along with the Finance Manager at the authority will be responsible for the full GAAP and GASB compliant financial statements for Fischer III, LLC.**
- Failure to make adjusting journal entries from the prior year audit
- **Response : We have implemented a new procedure that will address this issue going forward. The finance manager will be required to validate that all adjusting journal entries (relating to the year end audit) are preformed and that the prior year is closed on the accounting system in place. Finance manager will keep a copy of the audited adjusting posted entries and close out check list available for the auditors.**
- Failure to account for depreciation
- **Response: Finance Manager will be responsible to create the annual depreciation journal entries (approved by the CFO and Investor) and validate that the entries have been posted by the appropriate staff member. Depreciation schedule and posted entries will be available to the auditor going forward.**
- Failure to meet submission deadline for audit:

- **Response: Due to the financial recovery of the agency during the period after Hurricane Katrina the agency requested that submission deadlines be extended. Going forward with the 2009 audit the submission dates for engagements and audits will be met as required.**

If you have any concerns or would like to discuss the corrective action plan listed above, please contact Melissa Asfour at (504) 670-3478.

Sincerely

Fischer III, LLC


Edwin Jamora